Steven L. Beshear Governor

Leonard K. Peters Secretary Energy and Environment Cabinet



Commonwealth of Kentucky

Public Service Commission
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Frankfort, Kentucky 40602-0615

Telephone: (502) 564-3940
Fax: (502) 564-3460
psc.ky.gov

November 3, 2014

David L. Armstrong Chairman

James W. Gardner Vice Chairman

> Linda Breathitt Commissioner

PARTIES OF RECORD

Re: Case No. 2014-00159

Attached is a copy of a memorandum which is being filed in the record of the above-referenced case. If you have any comments you would like to make regarding the contents of the memorandum please do so within five days of receipt of this letter. If you have any questions, please contact Jonathan Beyer, Commission Counsel, at 502/782-2581.

Sincerely,

Jeff Derouen
Executive Director

### INTRA-AGENCY MEMORANDUM

#### KENTUCKY PUBLIC SERVICE COMMISSION

**TO:** Case File – Case No. 2014-00159

FROM: Jonathan Beyer, Staff Attorney

DATE: November 3, 2014

RE: Informal Conference of October 29, 2014

Pursuant to the Commission's October 29, 2014 Order, an informal conference was held in this matter on October 29, 2014. A list of attendees is attached.

Beginning the conference, Cumberland Valley Electric, Inc. ("Cumberland Valley") personnel discussed and explained the rationale for its proposed interest expense adjustment. Cumberland Valley indicated that a significant portion of its debt, approximately 85%, is currently comprised of variable short-term debt so as to take advantage of the historically low rates. It, however, believes that rates will soon begin to increase and it will be compelled to lock in longer term rates, which it can do on any calendar quarter. It stated that due to the use of short-term borrowing, it has saved on interest expense and the ratepayers have thereby been benefited. Cumberland Valley noted that it has the lowest blended interest rate in the Commonwealth and one of the lowest nationwide rates. Several handouts, which are attached, were distributed to aid in the discussion.

Commission Staff indicated that the Commission has never previously permitted recovery for interest expense which remains hypothetical. Cumberland Valley stated that if it is not granted the full amount requested, particularly in regard to the interest expense, it will most likely continue to lose money, fail to meet its TIER requirements and will likely request another rate increase next year.

The Attorney General followed with questions concerning Cumberland Valley's consistent practice of granting raises to all employees. Cumberland Valley stated that the raises for union employees are negotiated and the non-union employees are granted the same increase. It opined that its salaries are in line with other electric cooperatives. The Attorney General further inquired into Cumberland Valley's proposed increase being placed exclusively on the customer charge.

Finally, the parties discussed the potential for resolving the issues in this case. Thereafter, finding that no party had any further questions, the conference was adjourned.

# COMMONWEALTH OF KENTUCKY

## BEFORE THE PUBLIC SERVICE COMMISSION

In	the	IV/I:	atte	r	Of

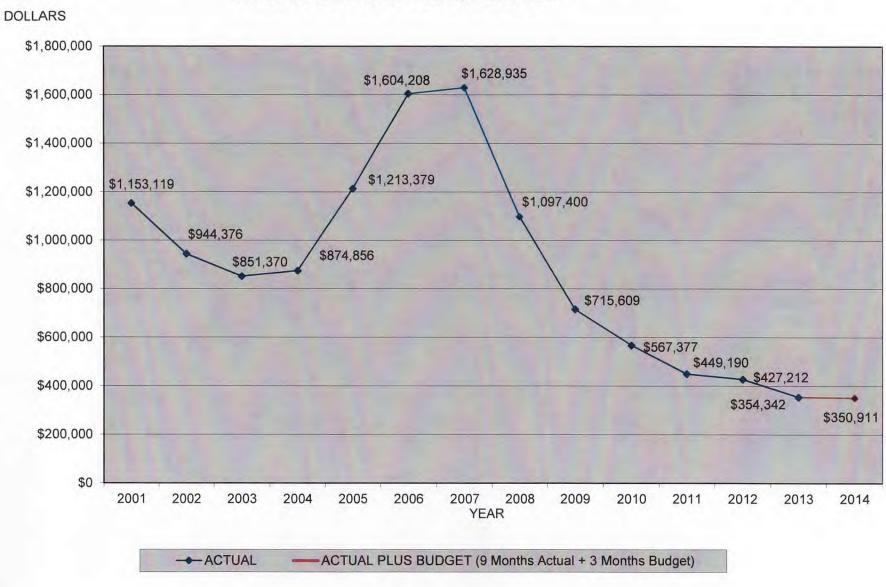
APPLICATION OF CUMBERLAND VALLEY	)	CASE NO.
ELECTRIC, INC. FOR AN ADJUSTMENT OF	j j	2014-00159
RATES	)	

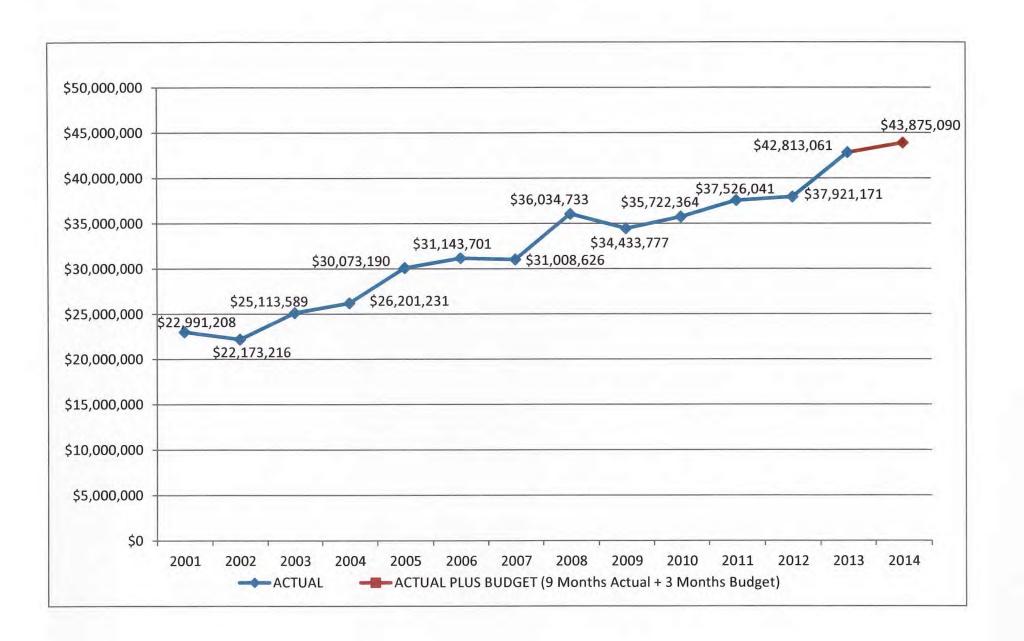
October 29, 2014

Please sign in:

NAME	REPRESEN	TING		- 2
Led Hampton	Cumbe	r/ GNC	1 Valle	ey Elec
Sim Adkins	11	1.	11	11
Barbara Illiett	<u>tr</u>	ч	4	9
Brian Chaney	<u> </u>	u	11	
Robert Tolliver	1.	7,	ι,	1,
THAT HAUSER ATTY	+		11	-
Leaf Faulkner	PSC.	- F	A	
Ron Handziak	PSC	- FA	4	
JENNIFER BLACK HANDSON	280	046		
Angela M. Goto	OAC	7		
RICHARD RAFF	BC-C	ECAL		
Jim Stevens	PSC -	FA		
JOHN SHUPP	PSC.	-ENG	2,	
Jonethan Beyer	P5C-4	Legal		

## INTEREST EXPENSE ON LONG-TERM DEBT





### Cumberland Valley Electric Case No. 2014-00159 Schedule of Long-Term Debt (Ongoing Request)

Type of Debt Issued	Date of Issue	Date of Maturity	10/13/2014 Oustanding Amount	Cost Rate to Maturity	Annualized Cost Col (d)x(g)	Test Year Interest Cost
RUS loans						
18290	Dec-97	Jun-32	1,214,461.83	5.375%	65,277	68,128
1B295	Nov-98	Jun-32	1,190,673.59	5.000%	59,534	62,103
1B300	Aug-00	Mar-35	950,138.40	0.125%	1,188	2,517
Advance Payment			(1,362,682.41)			
			1,992,591.41		125,999	132,748
FFB loans						
H0010	Mar-01	Dec-14	2,818,608.30	0.020%	564	5,038
H0015	Jul-03	Dec-14	3,385,144.57	0.020%	677	6,051
H0020	Jul-04	Dec-14	1,666,896.56	0.020%	333	2,957
H0025	Feb-05	Dec-14	1,515,360.47	0.020%	303	2,688
H0030	Oct-05	Dec-14	2,267,341.93	0.020%	453	4,022
H0035	Sep-06	Dec-14	1,542,707.21	0.020%	309	2,737
H0040	May-07	Dec-14	859,185.68	0.020%	172	1,534
H0045	Aug-08	Dec-14	3,456,083.68	0.020%	691	6,676
H0050	Nov-08	Dec-14	2,160,052.29	0.020%	432	3,798
		Dec-14 Dec-14		0.020%	518	4,557
H0055	Jan-10		2,592,034.29		724	6,363
H0060	Jul-11	Dec-14	3,619,034.35	0.020%		3,844
H0065	Jul-12	Dec-14	2,186,447.12	0.020%	437	
F0070	Jan-13	Dec-14	3,000,000.00	0.020%	600	2,526
F0075	Jun-13	Dec-14	1,900,000.00	0.020%	380	1,600
F0080	Dec-13	Dec-14	2,000,000.00	0.020%	400	1,074
F0085*	Jul-14	Dec-14	3,000,000.00	0.053%	1,590 8,584	55,465
*FFB Loan for \$3,000,	000 on July 22, 2	014	37,508,650.45		0,504	33,403
NCSC loans						
2003	Oct-10	Aug-13	0.00	2.300%	0	4,662
2004	Nov-10	Aug-14	0.00	2.700%	0	9,027
2005	Nov-10	Aug-15	301,948.87	3.050%	9,209	10,635
2006	Nov-10	Aug-16	320,665.49	3.350%	10,742	12,405
2007	Nov-10	Aug-17	202,674.75	3.600%	7,296	8,425
2008	Nov-10	Aug-18	253,479.96	3.800%	9,632	11,123
2009	Nov-10	Aug-19	248,981.06	4.000%	9,959	11,500
2010	Nov-10	Aug-20	264,048.38	4.150%	10,958	12,654
2011	Nov-10	Aug-21	211,859.16	4.200%	8,898	10,275
2012	Nov-10	Aug-22	164,699.46	4.300%	7,082	8,178
2012	1101 10	7.08 22	1,968,357.13		73,778	98,884
CoBank loans						
628T01	Feb-13	May-31	1,531,087.15	3.680%	56,344	45,236
628T02	Feb-13	Feb-22	603,227.19	2.590%	15,624	13,344
628T03	Feb-13	Nov-20	234,684.92	2.410%	5,656	4,935
628T04	Feb-13	May-16	81,539.84	1.860%	1,517	1,780
628T05	Feb-13	Nov-13	0.00	1.960%	0	1,950
028103	Pe0-13	100-13	2,450,539.10	1.500%	79,140	67,245
Total Long Term Debt		-	44,380,384.09		287,501	354,342
Annualized cost rate [1	Total Annualized	Cost Col./Total	Outstanding Amoun	t]	0.65%	
Actual test year cost ra						0.80%

06/24/2	014							nd Analysis Electric, Inc.								Page 4
-		USTO	otal		State Gre	ouping		Consum	er Size		Major Current P	ower St	upplier	Plant Growth (2008-2013)		
Year	System Value	Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Rank	Median	NBR	Ranl
RATIO	19 LONG TERM DE	BT AS A % O	TOTAL	ASSETS												
2009	45,26	45.69	808	415	51.56	23	17	44.60	67	31	53.09	16	13	44.15	160	7
2010	43.50	44.72	807	430	50.32	23	17	44.33	69	38	52.77	16	13	43.76	169	8
2011	43,44	44.30	805	424	49.56	23	17	43.31	70	34	50.79	16	13	45.62	210	11
2012	41.96	44.22	807	455	48.20	23	17	43.77	69	41	49.79	16	13	44.37	187	11
2013	43.90	44.29	809	414	48.80	23	14	40.98	67	26	49.44	16	11	44.73	200	10
RATIO	20 LONG TERM DE	BT PER KWH	SOLD (	MILLS)												
2009	65.31	103.19	808	603	82.16	23	15	95.34	67	50	87.16	16	12	93.02	160	11
2010	61.69	103.16	807	605	77.57	23	14	94.72	69	52	85.54	16	12	92.56	169	13
2011	70.25	104.60	805	571	81.72	23	14	88.24	70	50	87.31	16	12	101.37	210	15
2012	76.02	109.12	807	566	87.27	23	14	94.65	69	45	94.77	16	12	108.74	187	13
2013	87,96	112.60	809	529	88.10	23	13	100.00	67	40	93.58	16	11	118.73	200	13
RATIO	21 LONG TERM DE	BT PER CONS	SUMER	(\$)												
2009	1,385.30	2.043.37	808	622	1.732.15	23	17	1,788.10	67	50	1,905.12	16	13	1,903.59	160	12
2010	1,416.17	2.063.99	807	620	1,778.10	23	17	1,874.96	69	53	1,972.56	16	13	2,014.22	169	13
1	1,504.63	2.089.05	805	605	1.867.88	23	16	1,902.65	70	51	1,944.93	16	12	1,965.73	210	15
	1,523.40	2,142.33	807	610	1,868.06	23	17	1,892.94	69	52	1,964.78	16	13	2,034.05	187	14
2013	1,729.63	2,276.62	809	573	1,877.36	23	15	1,896.43	67	45	1,927.44	16	12	2,217.31	200	14
RATIO :	22 NON-GOVERNI	MENT DEBT A	S A % O	F TOTAL LO	NG TERM DE	31										
2009	10.57	25.26	792	626	14.26	23	15	28.26	65	53	12.41	16	9	23.00	159	12
2010	18.53	32.80	794	595	18.69	23	13	34.31	68	52	17.38	16	В	31.83	169	12
2011	15.48	32.20	795	640	18.32	23	15	33.09	69	57	17.33	16	10	28.09	207	16
2012	13.44	38.85	793	685	15.72	23	17	33.97	67	58	14.88	16	12	37.91	183	15
2013	10.32	39.92	800	744	14.23	23	20	31.91	66	59	13.41	16	15	41.03	197	18
RATIO :	23 BLENDED INTE	REST RATE (%	(6)													
2009	2.03	5.07	809	806	4 53	23	23	5.21	67	67	4.58	16	16	5.08	162	16
2010	1.62	4.96	807	803	4,26	23	23	5.08	69	69	4.22	16	16	4.99	169	16
2011	1.23	4.81	805	802	4.11	23	23	4.86	70	70	3.91	16	16	4.84	211	21
2012	1.13	4.61	806	805	3.92	23	23	4.67	69	69	3.58	16	16	4.59	187	18
2013	0.88	4.47	808	807	3.72	23	23	4.54	67	67	3.38	16	16	4.42	200	200
RATIO :	24 ANNUAL CAPIT	AL CREDITS F	ETIRE	PER TOTAL	L EQUITY (%)											
2009	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/
2010	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/
2011	1.21	2.18	675	518	0.84	18	8	2.12	56	40	0.78	14	6	2.34	183	14
2012	0.49	2.11	672	601	1.09	18	12	2.00	56	49	1.02	15	9	2.24	156	14:
2013	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Ranked Based on Monthly Bill Amour	Power Provider	Monthly Consumer Charge	Residential Rate per Kwh	Monthly Bill Based on 1,000 Kwh
Hickman-Fulton RECC	TVA	\$21.50	\$0.113760	\$135.26
Jackson Purchase Energy	Big Rivers	\$14.13	\$0.114370	\$128.50
West Kentucky	TVA	\$23.40	\$0.102730	\$126.13
Grayson RECC	East Ky	\$15.00	\$0.109100	\$124.10
Pennyrile Electric	TVA	\$18.40	\$0.099400	\$117.80
Kenergy	Big Rivers	\$15.60	\$0.101300	\$116.90
Meade County RECC	Big Rivers	\$17.16	\$0.097670	\$114.83
Tri-County	TVA	\$18.00	\$0.095220	\$113.22
Jackson Energy Coop. Corp.	East Ky	\$12.44	\$0.098490	\$110.93
*Warren RECC	TVA	\$18.80	\$0.091800	\$110.60
Clark Energy Cooperative, Inc.	East Ky	\$12.43	\$0.092425	\$104.86
Owen Electric Cooperative, Inc.	East Ky	\$17.10	\$0.087560	\$104.66
Big Sandy RECC	East Ky	\$15.00	\$0.089000	\$104.00
Inter-County RECC	East Ky	\$8.97	\$0.094210	\$103.18
Licking Valley RECC	East Ky	\$9.32	\$0.093550	\$102.87
Fleming-Mason RECC	East Ky	\$15.00	\$0.084310	\$99.31
Blue Grass Energy Cooperative	East Ky	\$9.73	\$0.089510	\$99.24
Shelby Energy Cooperative, Inc.	East Ky	\$10.14	\$0.088610	\$98.75
Farmers RECC	East Ky	\$9.35	\$0.088953	\$98.30
South Kentucky RECC	East Ky	\$12.82	\$0.085430	\$98.25
Nolin RECC	East Ky	\$9.04	\$0.085980	\$95.02
AEP (Kentucky Power)		\$8.00	\$0.085900	\$93.90
Taylor County RECC	East Ky	\$9.82	\$0.082200	\$92.0
Louisville Gas & Electric		\$10.75	\$0.080760	\$91.5
**Cumberland Valley Electric, Inc.	East Ky	\$5.74	\$0.085630	\$91.3
Salt River Electric Coop. Corp.	East Ky	\$8.84	\$0.079520	\$88.3
Kentucky Utilities Duke Energy		\$10.75 \$4.50		

			ential Consumers Low Emission
TOD	ETS	Block	Vehicle
X	X		
x			
A			
	X		
	X		
X	X	x	
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X			
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			X
	X		
X			
			X

# **CUMBERLAND VALLEY ELECTRIC**

## **DECREASE IN ANNUAL INTEREST EXPENSE**

		Base Year	
	Interest	Minus	Cumulative
Year	Expense	Current Year	Decrease
2007-Base	\$ 1,628,935		
2008	1,097,400	\$ 531,535	\$ 531,535
2009	715,609	913,326	1,444,861
2010	567,377	1,061,558	2,506,419
2011	449,190	1,179,745	3,686,164
2012	427,212	1,201,723	4,887,887
2013	354,342	1,274,593	6,162,480